

Alabama PACT Trust Fund

As of 03/31/2017

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Economic & Financial Market Update

Market Returns

Equities	YTD As of 3/31/17	Trailing 3 Months 3/31/17	2016	2015	2014	2013	2012	2011
S&P 500 Index (Large Cap Stocks)	6.07%	6.07%	11.96%	1.38%	13.69%	32.39%	16.00%	2.11%
S&P 500 (Large Cap Growth)	8.53%	8.53%	6.89%	5.52%	14.89%	32.75%	14.61%	4.69%
S&P 500 (Large Cap Value)	3.29%	3.29%	17.40%	-3.13%	12.36%	31.99%	17.68%	-0.48%
Russell 2000 Index (Small Cap Stocks)	2.47%	2.47%	21.31%	-4.41%	4.89%	38.82%	16.35%	-4.17%
Russell 2500 Index (Small to Mid Cap Stocks)	3.76%	3.76%	17.59%	-2.90%	7.07%	36.80%	17.88%	-2.75%
Russell Mid Cap TR USD	5.15%	5.15%	13.80%	-2.44%	13.22%	34.76%	17.28%	-1.55%
MSCI EAFE Index (Foreign Stocks)	7.25%	7.25%	1.00%	-0.81%	-4.90%	22.78%	17.32%	-12.14%
MSCI ACWI Ex-US (Foreign Stocks)	7.86%	7.86%	4.50%	-5.66%	-3.87%	15.29%	16.83%	-13.10%
MSCI EM (Foreign Stocks)	11.45%	11.45%	11.19%	-14.92%	-2.19%	-2.60%	18.22%	-18.42%
Fixed Income								
Barclays US Agg Bond TR USD (Bonds)	0.82%	0.82%	2.65%	0.55%	5.97%	-2.02%	4.22%	7.84%
BofA Merrill Lynch Muni 1-12 YR (Muni Bonds)	1.40%	1.40%	0.02%	2.34%	4.27%	-0.12%	3.40%	6.76%
91 Day T-Bill Index (Money Market)	0.10%	0.10%	0.33%	0.05%	0.03%	0.05%	0.11%	0.11%
Barclays Global Agg Ex USD TR	2.48%	2.48%	1.49%	0.36%	-3.08%	-3.08%	4.09%	4.36%
Barclays High Yield Corp TR USD	2.70%	2.70%	17.13%	-8.30%	2.45%	7.44%	15.81%	4.98%
Barclays US Treasury US TIPS	1.26%	1.26%	4.68%	-1.44%	3.64%	-8.61%	6.98%	13.56%
Diversified Strategies								
HFRX Global Hedge Index	5.72%	5.72%	1.63%	-3.64%	-0.58%	6.72%	3.51%	-8.87%

Source: Morningstar

Economy

Overview & Outlook

Economy		Risks: <ul style="list-style-type: none"> ▪ Potential financial instability in China ▪ Moves to limit imports into U.S spark global trade spats, weighing on global growth ▪ Rising nationalist sentiment across the globe leads to less open markets ▪ Geopolitical tensions 	Opportunities: <ul style="list-style-type: none"> ▪ Labor market conditions continue to improve ▪ Rising real incomes ▪ Solid rate of house price appreciation ▪ Healthy household balance sheets ▪ Regulatory relief and expansive fiscal policy pose upside risks for U.S. growth
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FOMC Moving At A Faster Pace, Or Just Keeping Up?

Q1 Another Quarter Of Uninspiring Growth

- The BEA's second estimate of Q4 2016 real GDP growth looked a lot like their first estimate, with no change in the 1.9 percent annualized growth rate. The details show a slightly different composition of growth, with initial estimates for consumer spending and inventory accumulation a bit higher while growth in government spending was marked slightly lower.¹
- Based on the data that have come out thus far, Q1 2017 real GDP growth is tracking below 2.0 percent, annualized. One reason is a jump in inflation in January, with the BEA reporting the PCE deflator rose by 0.4 percent. As a result, inflation adjusted consumer spending fell by 0.3 percent in January, setting a soft tone for growth in consumer spending in Q1.¹
- Still, other top-tier data releases paint a more constructive picture of underlying growth. The ISM Manufacturing Index rose to 57.7 percent in February, its highest level since August 2014, and the details show further increases in new orders, current production, and employment. At the same time, new export orders rose for a 12th consecutive month, another sign of firming global growth. The ISM Nonmanufacturing Index indicates continued solid growth in the service providing industries, which continue to account for the bulk of job growth in the U.S. economy.²
- As did the PCE deflator, the Consumer Price Index showed inflation picked up steam in January, with the CPI up by 0.6 percent. It is important to note, however, that energy prices have been the main driver of faster inflation while core inflation remains fairly stable.³

Source: Bureau of Economic Analysis (BEA)¹; Institute for Supply Management (ISM)²; Bureau of Labor Statistics (BLS)³.

Please see the Important Disclosures that accompany this document

Labor Market Continues To Improve

- Total nonfarm employment rose by a larger than expected 235,000 jobs in February, with private sector payrolls up by 227,000 jobs and public sector payrolls up by 8,000 jobs.³ As with the January data, seasonal adjusted noise led to reported job growth in construction being overstated, but nonetheless the underlying trend rate of job growth remains solid.
- Average hourly earnings were up 0.2 percent in February, but there were upward revisions to prior estimates for December and January. This leaves average hourly earnings up 2.8 percent year-on-year.³
- The U3 unemployment rate fell to 4.7 percent in February, while the broader U6 measure dipped to 9.2 percent.³

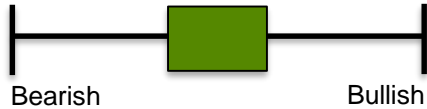
FOMC: March Seems Like A Done Deal

- The week of February 27 saw a parade of seemingly more aggressive FOMC members basically prep the financial markets for a 25-point basis point hike in the mid-point of the Fed funds rate target range at the March FOMC meeting. Market participants took this talk largely in stride.
- The evolution of the economic data supports the FOMC should they follow through with a rate hike this month. What will be more significant will be how Fed Chairwoman Yellen explains the FOMC's thinking in her post-meeting press conference. Also, in conjunction with this month's meeting the FOMC will release updated economic projections and a revised "dot plot." Market participants will be carefully watching the dot plot for any signs the FOMC thinks it needs to step up the pace of funds rate hikes.

Fixed Income

Overview & Outlook

Fixed Income



Risks:

- Uncertainty over global central bank policies lead to heightened volatility in the financial markets
- Inflation expectations rise significantly on improved U.S. growth outlook
- Larger U.S. government budget deficits mean substantial increase in issuance of Treasury debt, putting upward pressure on interest rates

Opportunities:

- Post-Brexit uncertainty sustains a flight to safety, pushing U.S. yields lower
- Less lift to growth and inflation from changes to regulatory and fiscal policy results in less upward pressure on long-term interest rates than anticipated
- Absence of significant increase in inflation pressures enables FOMC to continue normalizing Fed funds rate at a gradual pace

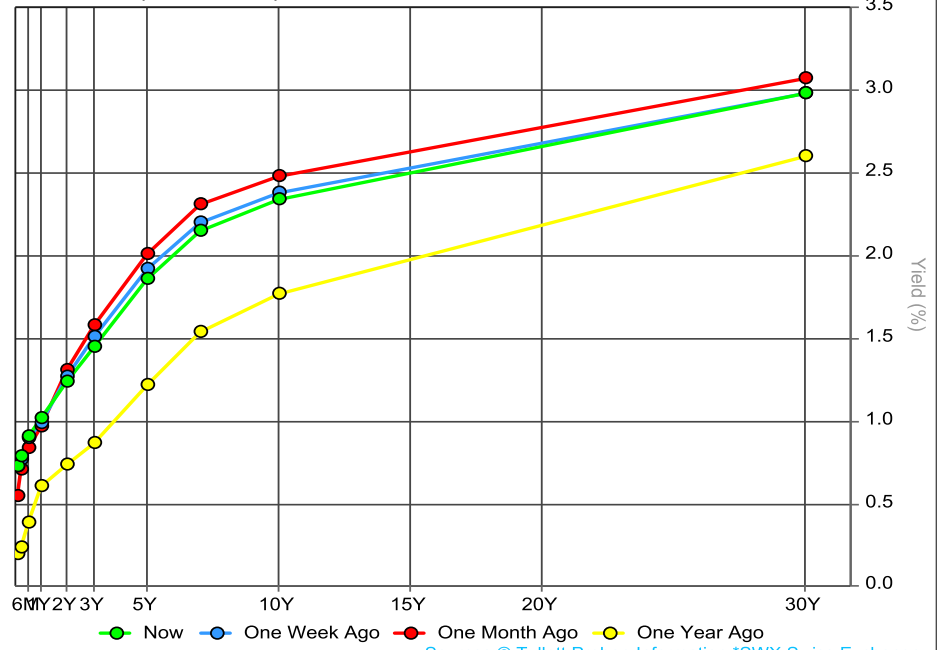
Yields as of March 31, 2017

US Treasuries

3-month	0.78%
2-year	1.23%
5-year	1.86%
10-year	2.34%
30-year	2.98%
CPI All Items (12-Month % Change)	2.7%
Barclays US Agg Option-Adjusted Spread	0.42bps
BofA Merrill Lynch US High Yield Master II Option-Adjusted Spread	392bps
Barclays US Aggregate	2.61%
Barclays Global Agg ex USD	0.79%
BofA Merrill Lynch US High Yield Master II	6.13%
Barclays US Tsy US TIPS	1.57%

Source: FactSet, Bureau of Labor Statistics

Yield Curve (United States)



Source: FactSet

as of April 1st, 2017

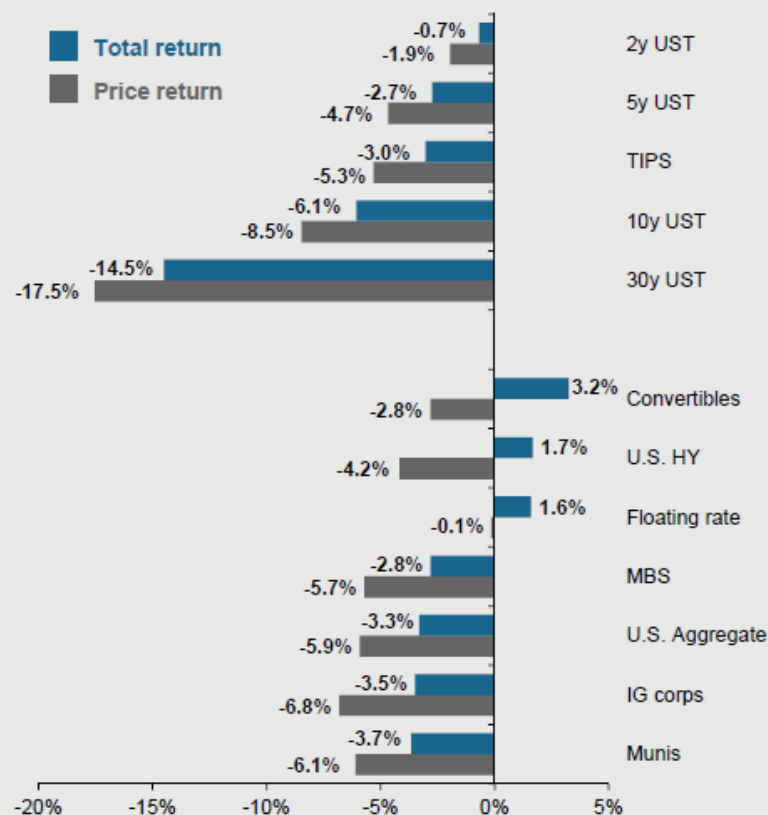
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Fixed Income Yield and Returns

U.S. Treasuries	Correlation to 10-year	Avg. Maturity	Yield		Return
			3/31/2017	12/31/2016	2017 YTD
2-Year	0.63	2 years	1.27%	1.20%	0.26%
5-Year	0.91	5	1.93%	1.93%	0.46%
10-Year	1.00	10	2.40%	2.45%	0.79%
30-Year	0.93	30	3.02%	3.06%	1.30%
TIPS	0.57	10	0.43%	0.50%	1.26%
Sector					
Broad Market	0.86	8.2 years	2.61%	2.61%	0.82%
MBS	0.80	7.3	2.90%	2.85%	0.47%
Municipals	0.47	9.9	2.45%	2.64%	1.78%
Corporates	0.45	10.7	3.33%	3.37%	1.22%
High Yield	-0.25	6.2	5.84%	6.12%	2.70%
Floating Rate	-0.20	2.7	1.74%	1.76%	0.95%
Convertibles	-0.31	-	6.07%	6.18%	5.67%

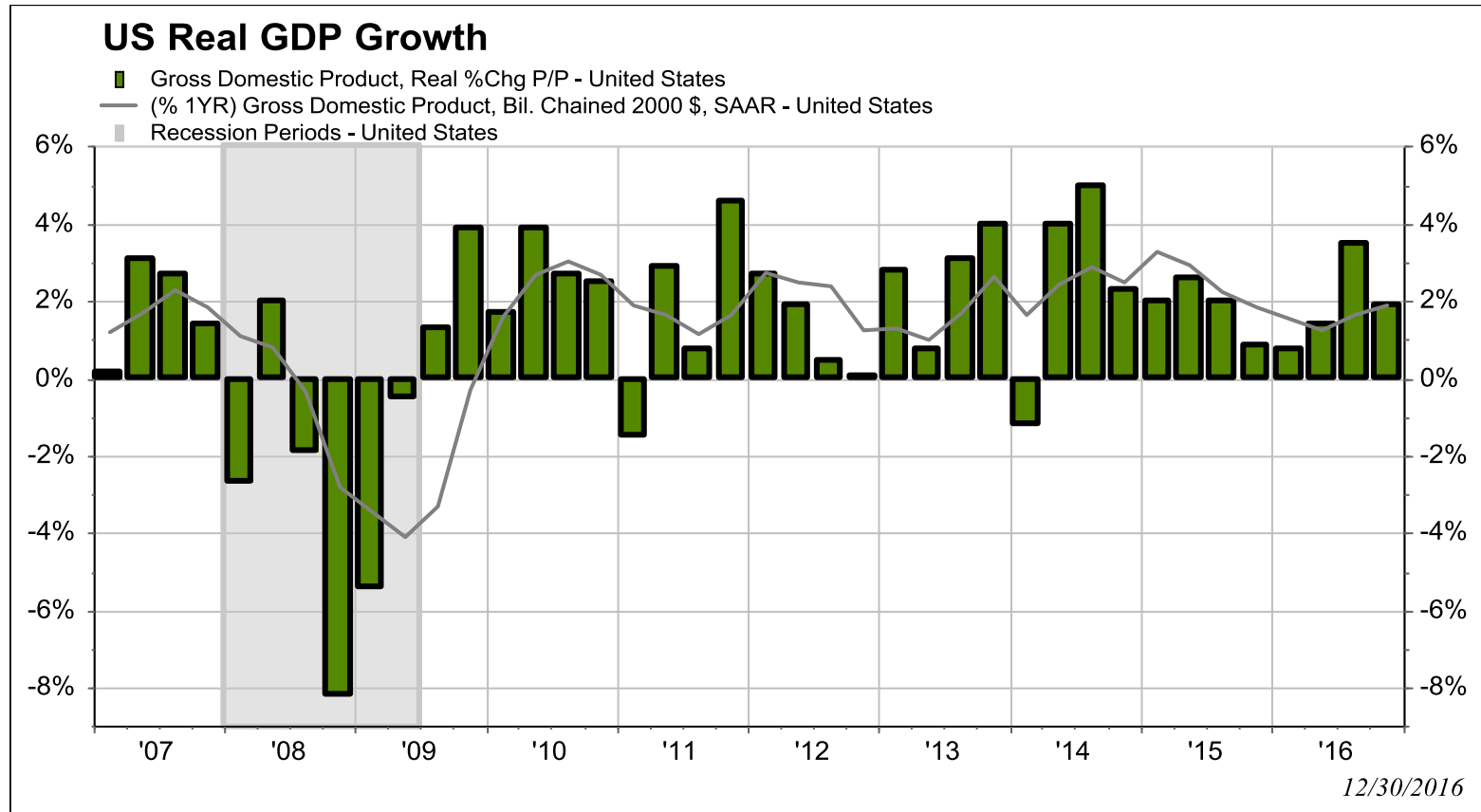
Impact of a 1% rise in interest rates

Assumes a parallel shift in the yield curve and steady spreads

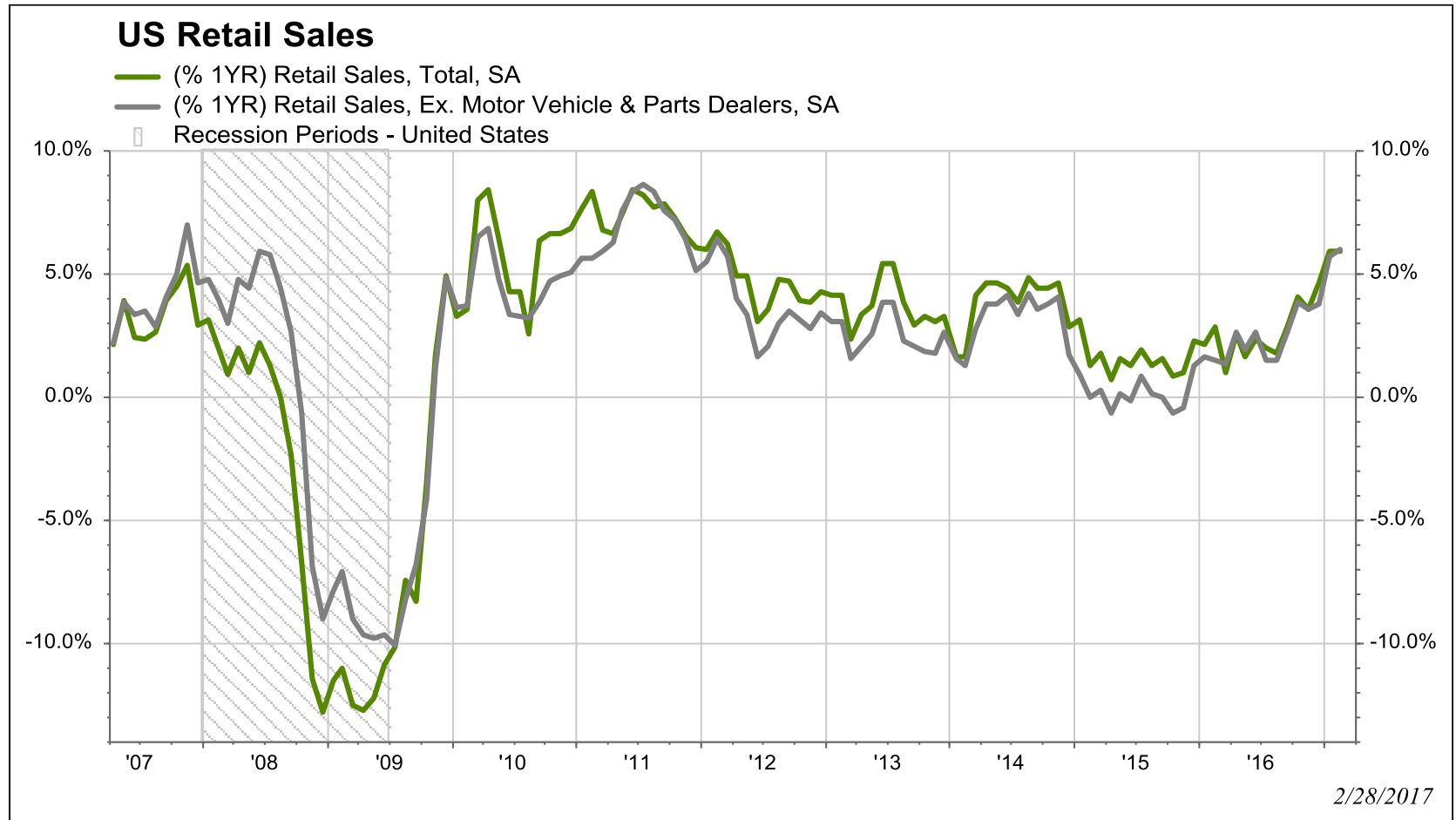


Source: U.S. Treasury, Barclays Capital, FactSet, J.P. Morgan Asset Management. Sectors shown above are provided by Barclays Capital and are represented by – Broad Market: U.S. Aggregate; MBS: U.S. Aggregate Securitized - MBS; Corporate: U.S. Corporates; Municipals: Muni Bond 10-year; High Yield: Corporate High Yield; TIPS: Treasury Inflation Protection Securities (TIPS). Floating Rate: FRN (BBB); Convertibles: U.S. Convertibles Composite; ABS: ABS + CMBS. Treasury securities data for # of issues based on U.S. Treasury benchmarks from Barclays Capital. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield to worst, while Treasury yields are yield to maturity. Correlations are based on 10-years of monthly returns for all sectors. Change in bond price is calculated using both duration and convexity according to the following formula: $\text{New Price} = (\text{Price} + (\text{Price} * \text{Duration} * \text{Change in Interest Rates})) + (0.5 * \text{Price} * \text{Convexity} * (\text{Change in Interest Rates})^2)$. Chart is for illustrative purposes only. Past performance is not indicative of future results. Data are as of March 31, 2017.

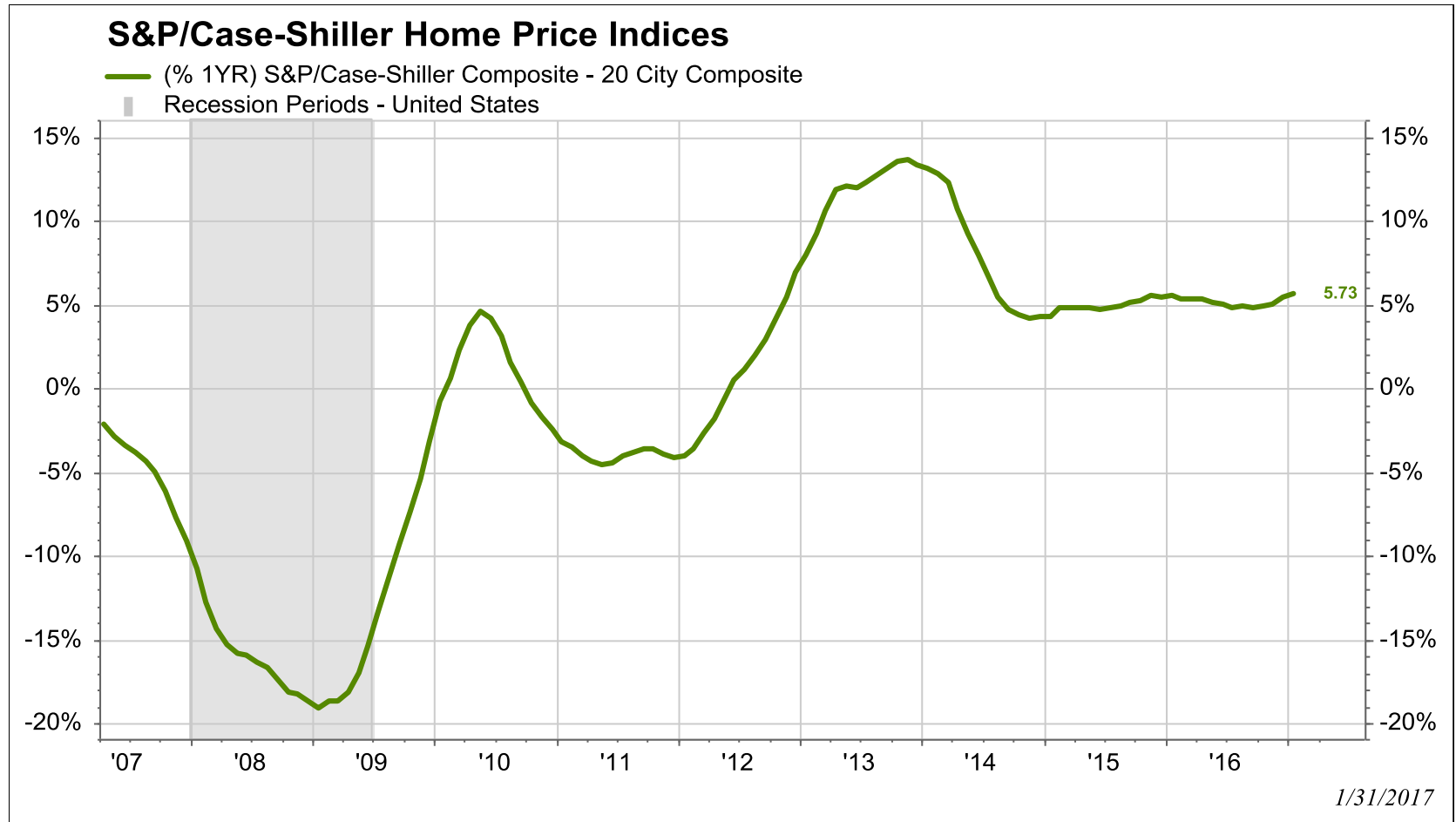
US Real GDP Growth



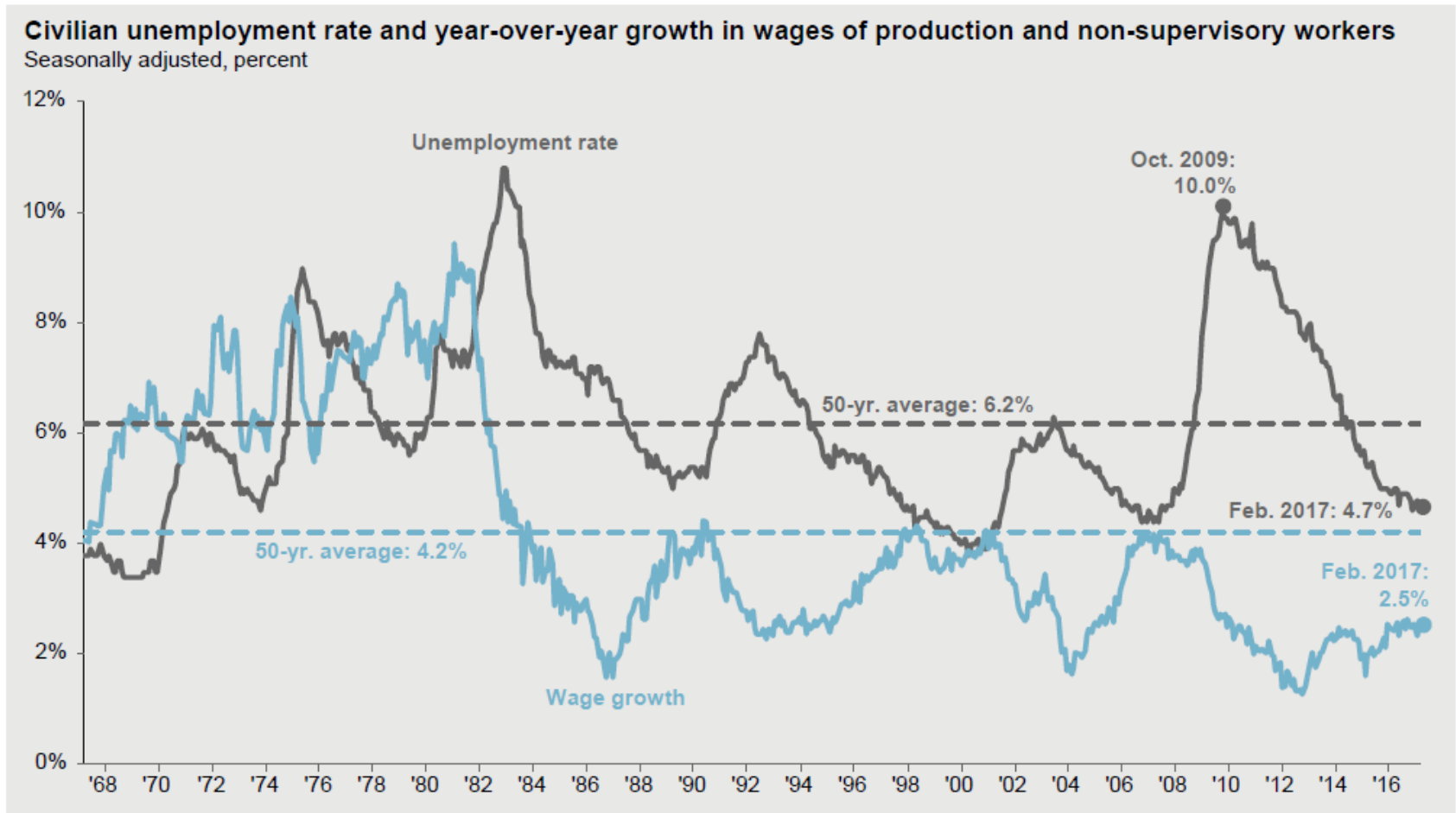
US Retail Sales



S&P/Case-Shiller Home Price Index



Unemployment Rate & Wage Growth

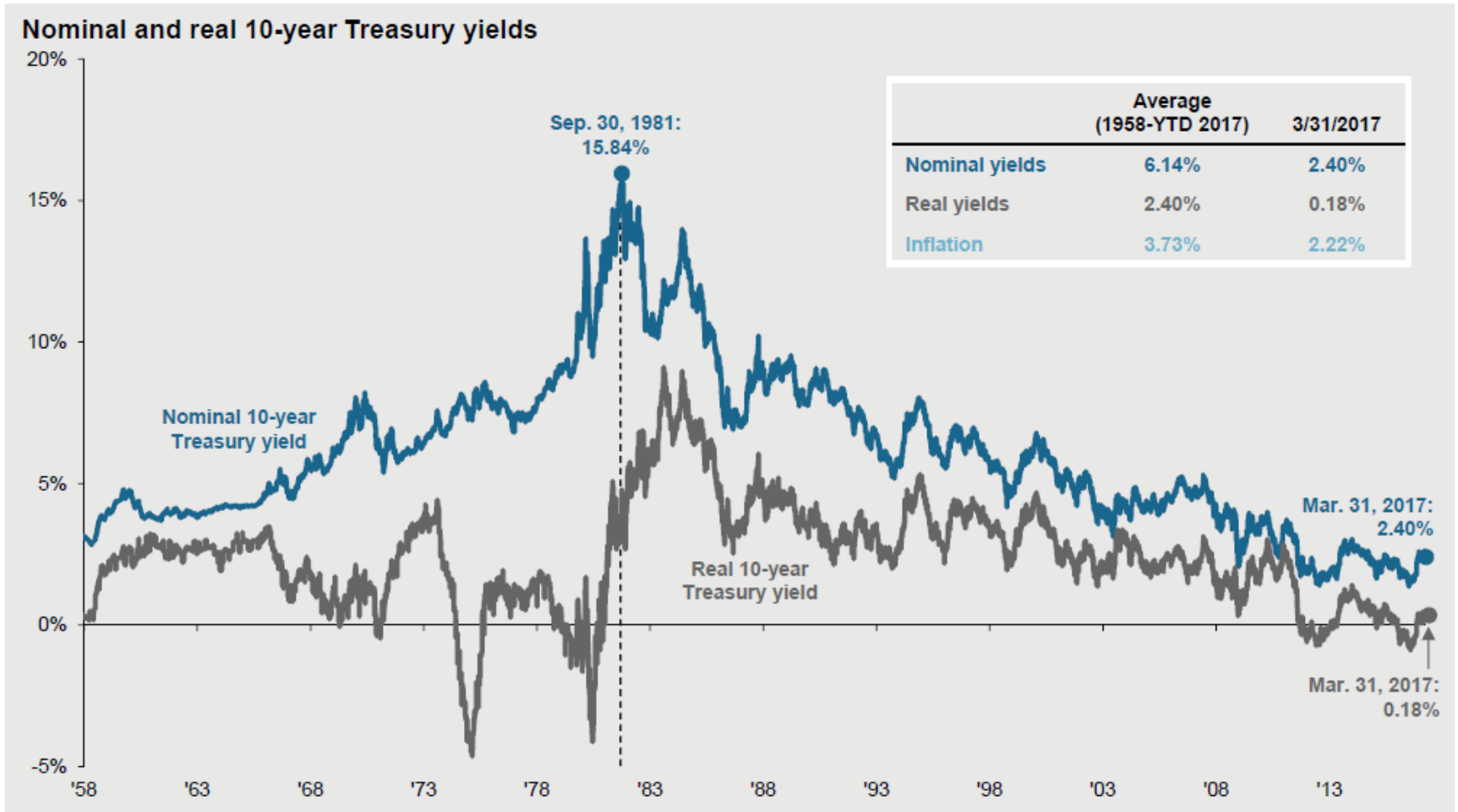


Source: BLS, FactSet, J.P. Morgan Asset Management.
Data are as of March 31, 2017.

US Labor Force Participation Rate



Interest Rates and Inflation



Source: Federal Reserve, BLS, J.P. Morgan Asset Management. Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month except for December 2016, where real yields are calculated by subtracting out November 2016 year-over-year core inflation. Data are as of March 31, 2017.

A Look at Oil

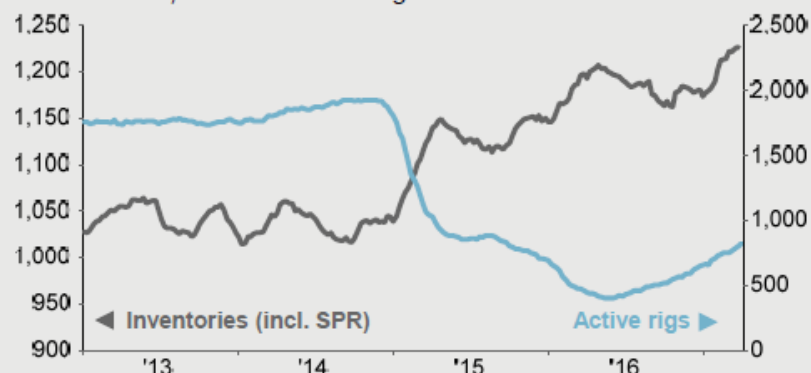
Change in production and consumption of liquid fuels

Production, consumption and inventories, millions of barrels per day

	2014	2015	2016	2017*	2018*	Growth since 2014
Production						
U.S.	14.1	15.1	14.8	15.4	16.4	16.1%
OPEC	36.6	38.0	39.0	39.5	40.2	9.7%
Global	93.8	96.8	97.2	98.2	99.9	6.5%
Consumption						
U.S.	19.1	19.5	19.6	19.8	20.2	5.8%
China	11.5	12.0	12.4	12.8	13.1	14.0%
Global	93.6	95.1	96.6	98.2	99.7	6.6%
Inventory Change	0.2	1.7	0.5	0.1	0.2	

U.S. crude oil inventories and rig count**

Million barrels, number of active rigs



Price of oil

Brent crude, nominal prices, USD/barrel



Source: EIA, IMF, FactSet, J.P. Morgan Asset Management. Brent crude are monthly averages in USD using global spot ICE prices.

*Forecasts are from the March 2017 EIA Short-Term Energy Outlook and start in 2017. **U.S. crude oil inventories include the Strategic Petroleum Reserve (SPR). Active rig count includes both natural gas and oil rigs. Brent crude prices are monthly averages in USD using global spot ICE prices. Guide to the Markets – U.S. Data are as of March 31, 2017.

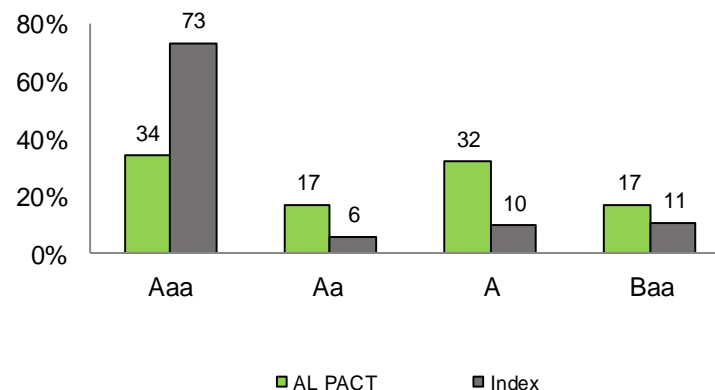
Regions Institutional Investment Management

Bond Portfolio Characteristics vs. Index Performance and Risk Measures

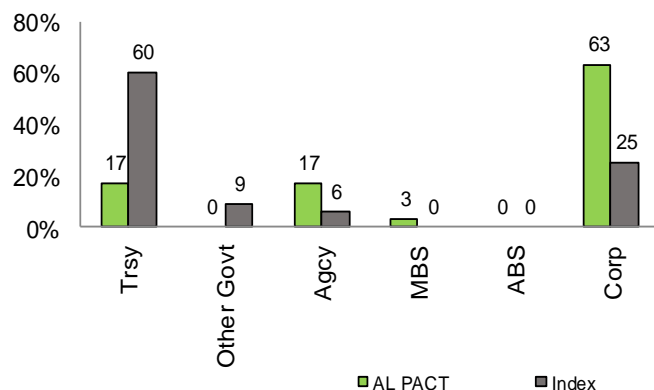
1Q17 Fixed Income Portfolio Characteristics vs. Index

	AL PACT	Index
Effective Duration	1.73	1.94
Yield to Maturity	1.63%	1.49%
Maturity	2.43	2.00
Average Coupon	2.15%	2.05%
Average Quality	Aa3	Aa1

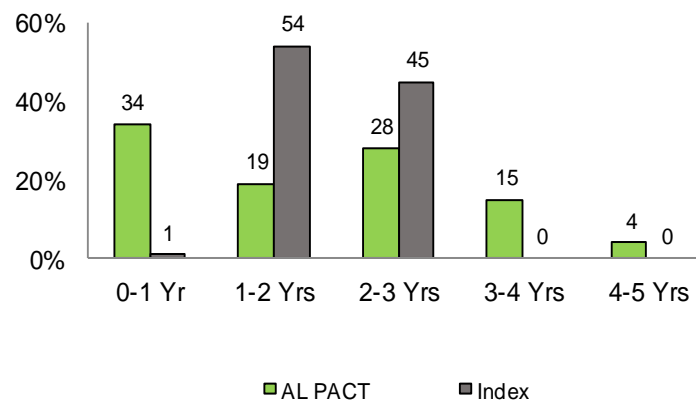
Quality vs. Index



Sector Distribution vs. Index



Duration Distribution vs. Index



AL PACT Trust Fund

Total Returns Compared with the Benchmark

For Periods Ending
03/31/2017

	QTR	YTD	1 Year	Inception *
AL PACT	0.54%	0.54%	0.98%	1.61%
Benchmark	0.41%	0.41%	0.71%	1.35%
<i>Excess Return</i>	<i>0.13%</i>	<i>0.13%</i>	<i>0.27%</i>	<i>0.26%</i>

Returns are shown **net of fees**; past performance does not guarantee future returns

Source: APX & Barclays Capital

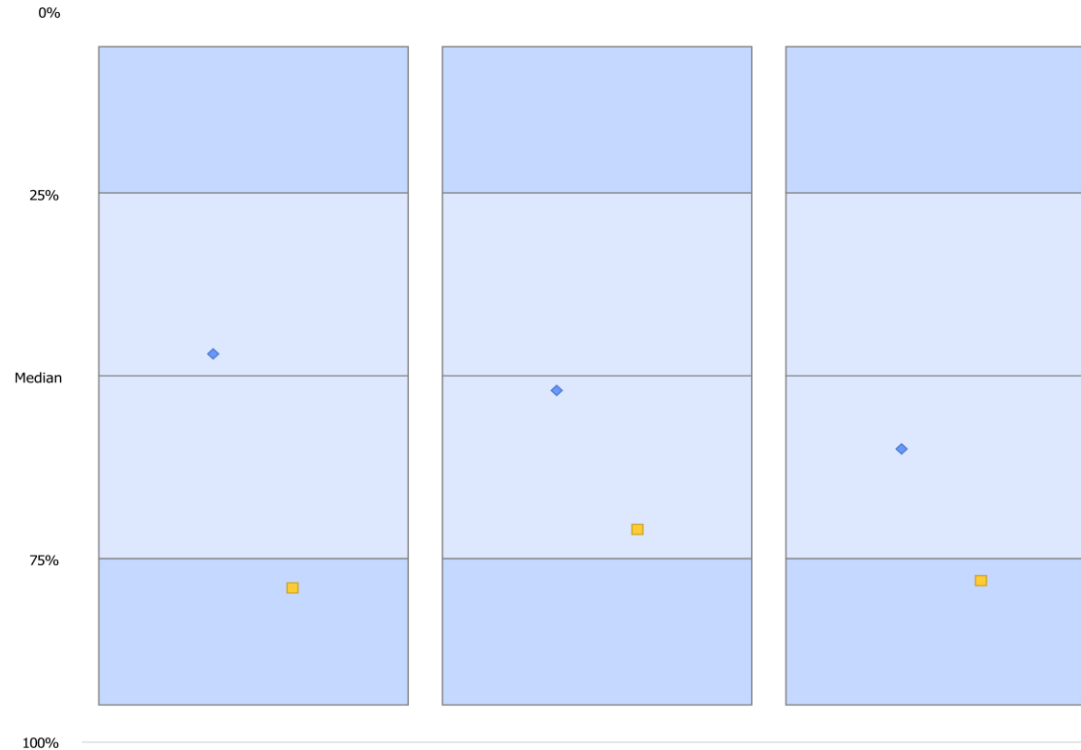
* Annualized; Inception Date as of 12/31/15

Index: Barclays 1-3 Year Gov/Credit

AL PACT Trust Fund

Returns as of: March 31, 2017

◆ RIIM: AL Pact Net of Fees
 ■ Bloomberg Barclays Index: Bloomberg
 Barclays US 1-3 Yr ...



Universe: eVestment US Short Duration Fixed Income

	VT	RM	MRQ		1 Year		1.33 Years	
				Rk		Rk		Rk
◆ RIIM	SA	GF	0.54	47	0.99	52	1.40	60
■ Bloomberg Barclays Index	IX	IX	0.41	79	0.71	71	1.17	78

Results displayed in USD.

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AL PACT Trust Fund

INVESTMENT RETURN SUMMARY - QUARTER ENDING MARCH 31, 2017

Name	Current Quarter Total Return	Prior Quarter Market Value	Net Cashflow	Investment Return	Current Quarter Market Value *
Regions (STFI)	0.54%	\$61,431,311	(\$7,636)	\$335,345	\$61,759,020
Regions Cash (CASH)	0.11%	\$1,980,178	\$8,001,044	\$12,391	\$9,993,613
Regions Lockbox (CASH)	0.00%	\$1,351,826	\$329,937	\$0	\$1,681,763
Total Portfolio		\$64,763,315	\$8,323,345	\$347,736	\$73,434,396
* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$2,575,838.54 that was in the Treasury Account on March 31, 2017.					

MANAGER ALLOCATION SUMMARY - QUARTER ENDING MARCH 31, 2017

Prior Quarter Market Value	%	Fund Name	Style	Current Quarter Market Value *	%
\$88	0%	Residuals	(FIXD)	88.36	0%
\$61,431,311	95%	Regions	(STFX)	61,759,020.31	84%
\$1,980,178	3%	Regions Cash	(CASH)	9,993,612.92	14%
\$1,351,826	2%	Regions Lockbox	(CASH)	1,681,763.07	2%
\$64,763,403	100%	Composite	(TOTL)	\$73,434,485	100%

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$2,575,838.54 that was in the Treasury Account on March 31, 2017.

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